

Panel Prices May Crash Below Cash Costs, Pressuring Panel Manufacturers in 2H, Says TrendForce

2019-07-01 [TrendForce](#)

According to [Witsview](#), a division of [TrendForce](#), despite the relaxation of the US-China trade dispute in the wake of G20, demand for various end products in 2H will remain in a conservative mood until the situation becomes clear through subsequent negotiations, leading to a less-than-expected restocking demand for panels. Suppliers are already finding trouble profiting in 2Q due to continuously sliding panel prices. If the US-China negotiations hit a wall again, the continued trade conflict may drag down sales in the peak seasons of 2H. This may drastically raise the chances of panel prices crashing below cash costs and pressure businesses for the second half-year, forcing them to decide whether to reduce production.

Shortage Subsides for Upstream Components, Lowering Bargaining Power of Panel Manufacturers

TrendForce asserts that the smartphone market is facing a decline this year, and although the US has relaxed its ban on Huawei, it did not remove the company from its Entity List, implying that Huawei phone shipments will still be affected. Orders for components (including COFs) have already been impacted by relevant sanctions. It was originally predicted that a tightening COF supply would affect shipments for large-sized panels. But now that this situation has been resolved, the market will be looking for any signs of prices loosening up for driver ICs, which have yet to lower for several seasons in a row. Furthermore, some panel manufacturers have scheduled annual maintenances for equipment repair, causing shipment area for large-sized panels to go below expectations and alleviating the tightened polarizer supply. This will make it hard for panel manufacturers to cite component shortages as the reason for their refusal to cut prices.

Panel Quotes Fail to Hold Steady, Increasing Likelihood of Crashing Below Cash Costs in 2H

Judging from panel prices in 2Q, quotes for mainstream panel sizes 14 inch and 15.6 inch in demand by notebook PC manufacturers have already come close to cash cost levels, while small-sized monitor panels (18.5/19.5/21.5 inches etc.) have ceased to be profitable. Some TV panel sizes managed to stay on the rise for 2 months, only to take another turn downwards in June. 32-inch panels, for instance, have cash costs of about US\$35~36 per panel, but their quotes have already come down to US\$38~39 per panel, and are very likely to crash below cash costs in 2H if the decline continues its course. Other sizes such as 55-inch and 65-inches are also facing similar situations. Since profits for the three major areas of application have faced quick erosion, panel manufacturers are going to have to consider the option of reducing production if panel prices crash below cash costs.

Panel Manufacturers Focusing on Cost Control and Expanding Niche Product Presence

TrendForce points out that due to China panel manufacturers' endless expansion of production capacity, panel oversupply will become the norm in the future. China's panel suppliers are backed by government subsidies; Korean suppliers are supported by demand from their own respective brands; whereas Taiwan suppliers are at a disadvantage. AU Optronics and Innolux have continued to develop new products these two years, as we see, for instance, AU Optronics' performing well with its 8K TV panels and IT panels for gaming, and Innolux's actively developing mini LED backlights, dual-cell with improved brightness and contrast. However, the key to business still lies in profitability. Improving cost structures has already become an urgent task for panel manufacturers, and since the variable costs for components are difficult to control, panel manufacturers will keep on optimizing the labor and the product portfolios of various facilities while seeking out ways to lower capex, all in an attempt to lower fixed costs in the face of an increasingly challenging 2H.

About TrendForce

TrendForce is a global provider of the latest development, insight, and analysis of the technology industry. Having served businesses for over a decade, the company has built up a strong base membership base of 435,000 subscribers. TrendForce has established a reputation as an organization that offers insightful and accurate analysis of the technology industry through five major research divisions: DRAMXchange, WitsView, LEDinside, EnergyTrend and Topology. Founded in Taipei, Taiwan in 2000, TrendForce has extended its presence in China since 2004 with offices in Shenzhen and Beijing. For more details about TrendForce, please visit www.trendforce.com

Major research divisions:

DRAMeXchange focuses on memory, storage and the consumer electronics industry including PC DRAM, Mobile DRAM, Server DRAM, NAND Flash, SSD and smartphone.

WitsView offers comprehensive coverage of the display industry from upstream components, midstream panels/touch modules to downstream system integrators, brands and channels.

LEDinside covers all aspects of the LED supply chain from upstream equipment/materials, midstream chip/packaging to the downstream backlight and lighting market.

EnergyTrend specializes in green energy research, such as solar energy, lithium battery, energy storage systems and xEVs.

Topology studies structural trends of technology industries in the Greater China Region and beyond, focusing on semiconductors, photovoltaic technology, telecommunications, and IA.

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Source URL: Trendforce - Press Center [Panel Prices May Crash Below Cash Costs, Pressuring Panel Manufacturers in 2H, Says TrendForce](#)